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C O N F I D E N T I A L AIT TAIPEI 001647

STATE FOR EAP/TC  
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TAGS: [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [TW](#) [CH](#)  
SUBJECT: TAIWAN MULLS ENHANCED CROSS-STRAIT FINANCIAL LINKS

Classified By: Economic Chief Hanscom Smith for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY. In advance of the 14th Cross-Strait Financial Academic Research Conference slated to take place in Beijing this week, Taiwan financial sector contacts say preparations are underway for a cross-Strait MOU that would facilitate Taiwan banks' access to the Chinese market, and vice-versa. The MOU could possibly be signed as early as next spring. END SUMMARY.

¶2. (C) In a recent meeting, Financial Supervisory Commission (FSC) Banking Bureau Director General Chang Ming-dao told us China and Taiwan have already made significant progress on a possible memorandum of understanding (MOU) for cross-Strait banking regulation and supervision. Such an MOU would be the necessary precursor to Taiwan banks and other financial firms expanding their participation in the Chinese market and allowing Chinese counterparts into Taiwan. Chang said China has already passed a draft MOU to Taiwan, and that Banking Bureau officials will participate in this week's Research Conference in Beijing for further discussion. Chang anticipated that an MOU would be signed sometime next spring. He noted, however, that the MOU would only cover cross-Strait regulation and supervision of banks and other financial firms, but would not address market access issues. Chang expects market access issues to be controversial and time-consuming, and said they could take as long as four-to-five years to negotiate.

¶3. (C) According to Chang, cross-Strait financial negotiations will encounter a number of potential hurdles. Taiwan banks want access to the China market, he explained, and are especially interested in access to Taiwan firms doing business there. Seven Taiwan banks already have representative offices in China, and would like to convert them into full branches. Fubon Financial Holding has recently received approval to acquire a 20 percent stake in Fujian's Xiamen City Bank. Chinese banks, in turn, would like access to Taiwan's financial market. Although the market is relatively small and margins are much thinner than on the Mainland, local bankers point out that Chinese banks could conceivably gain access to the Taiwan banking industry's Joint Credit Investigation database and use this information to compete for business with Taiwan firms in China.

14. (C) Fubon President Victor Kung told us that Taiwan's financial services market is very difficult right now, and would become even more so with the advent of Chinese competition. Even so, Kung hopes Taiwan and China will start negotiating a good MOU that would allow both sides to open branches in each other's markets and invest in each other's financial institutions. Echoing Kung's optimistic outlook, but adding a level of caution, Cathay United Bank President Chen Tsu-pei argues that because Chinese banks are so much larger than their Taiwan competitors, simply opening both markets on a reciprocal basis would not work. Chinese banks, he maintains, should be allowed into the Taiwan market, but only with certain limits on the size of their investment and the number of their branches.

15. (C) COMMENT. Especially against the backdrop of a weakening Taiwan economy, efforts to open the financial market to China will arouse political controversy related to Taiwan's economic sovereignty, and to the employment impact on a Taiwan banking sector in which state-owned banks control roughly half of all assets. END COMMENT.

RWANG